

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2000-004-G - ORDER NO. 2000-707

AUGUST 25, 2000

IN RE: Annual Review of Purchased Gas Adjustment) ORDER RULING ON
and Gas Purchasing Policies of Piedmont) GAS COSTS AND GAS
Natural Gas Company.) PURCHASING POLICIES

On April 6, 1988, the Public Service Commission of South Carolina (the Commission) issued its Order No. 88-294 which requires the Annual Review of the Purchased Gas Adjustment (PGA) and Gas Purchasing Policies of Piedmont Natural Gas Company (Piedmont or the Company).

By letter, the Commission's Executive Director instructed the Company to publish a prepared Notice in a newspaper of general circulation in the area affected by the Company's Application. The Notice indicated the nature of the annual review and advised all interested parties of the manner and time in which to file appropriate pleadings for participation in the proceedings. The Company was instructed to directly notify all of its customers affected. The Company submitted affidavits indicating that it had complied with these instructions. The Consumer Advocate for the State of South Carolina (the Consumer Advocate) intervened in the proceedings.

A hearing was held on this matter on August 10, 2000 at 10:30 AM in the Commission's hearing room, with the Honorable William Saunders, presiding. Piedmont was represented by John Schmidt, Esquire and Jerry W. Amos, Esquire. Piedmont

presented the testimony of Keith P. Maust and Ann H. Boggs. The Consumer Advocate was represented by Hana Pokorna-Williamson, Esquire. The Consumer Advocate did not present a witness at the proceeding. The Commission Staff was represented by F. David Butler, General Counsel. The Commission Staff presented the testimony of Norbert M. Thomas and Brent L. Sires.

Company witness Keith P. Maust presented testimony describing Piedmont's gas purchasing policies. According to witness Maust, Piedmont has and continues to maintain a "best cost" purchasing policy which consists of five main components – the price of gas, the security of the gas supply, the flexibility of the gas supply, gas deliverability, and supplier relations. Maust described each of the five components on Piedmont's "best cost" gas purchasing policy and the steps taken during the review period to comply with that policy. Maust stated that Piedmont is satisfied that the policies and procedures presently in place are prudent and that the policies and procedures have produced adequate amounts of reasonably priced gas for Piedmont's customers.

Maust testified that Piedmont did not make any changes in its "best cost" gas purchasing policies or practices during the year, but Maust outlined additional steps taken by Piedmont to manage its gas costs, consistent with its overall "best cost" policy. Included among the additional steps outlined by Maust of Piedmont managing its gas costs consistent with its "best cost" policy are (1) Piedmont has actively participated in renegotiating and restructuring eligible supply and capacity contracts to take advantage of market opportunities, resulting in over \$290,000 in reservation fee savings under eight contracts, during the test period on an annualized basis; (2) Piedmont has utilized the

flexibility within its supply and capacity contracts to purchase and dispatch gas, and release capacity, in the most cost effective manner, resulting in South Carolina release credits of \$2,060,745 during the test period; (3) Piedmont has “locked in” gas prices for periods of time to maintain its competitive position in specific markets and has provided transportation services to large volume customers in order to maintain system throughput and reduce average unit costs; (4) Piedmont has actively promoted more efficient peak day use of natural gas and load growth from “year-round” markets, in order to improve the Company’s load factor and reduce average unit costs; (5) Piedmont has actively participated in proceedings before the FERC and other regulatory agencies that could reasonably be expected to affect Piedmont's rates and services; and (6) Piedmont has reviewed its gas supply activities with its internal Planning Committee, in order for the gas supply department to receive input and direction on its performance and planning activities.

Company witness Ann H. Boggs testimony attests that current true-up procedures result in a properly stated cost of gas and that Piedmont's gas costs are properly recorded in compliance with Piedmont’s Gas Cost Recovery Mechanism as approved by the Commission. Further, Boggs stated that the Deferred Account balance is properly stated at March 31, 2000.

Staff witness Norbert M. Thomas presented testimony that the Accounting Staff had reviewed the monthly filings made by the Company and the activity included in Account No. 253.04 for the period April, 1999, through March, 2000. Thomas proposed certain adjustments with the net effect of these adjustments increasing the under-

collection at March 31, 2000, by \$384,277. Thomas testified that it was Staff's opinion that the adjusted balance at March 31, 2000, of \$9,154,823 fairly represents the undercollection by Piedmont and that the amount is accurately stated and in compliance with prior Commission Orders. All of the parties agreed with the adjustments proposed by the Commission Staff. Thomas also proposed that the Company be limited to a rate of interest applied to Account 253.04 of the Company's authorized rate of return or the rate of interest that the Company is actually earning, whichever is lower. This would be a modification of our holding in Order No. 98-618, which called only for application of the earned rate of return. Thomas' modification would place an upper limit on the allowed interest rate limited by the authorized rate of return. Piedmont does not object to this procedure.

Staff witness Brent L. Sires also presented testimony. Sires testified that the Utilities Department has found that the Company's PGA is being operated in compliance with the various appropriate Commission Orders. Staff's review, as per witness Sires, indicated that \$4.39 per dekatherm benchmark cost of gas was appropriate. Sires expressed the opinion on behalf of Staff that this benchmark cost of gas is representative of the Company's gas cost on average over the next twelve (12) months.

Sires further stated his belief that the Company is acting prudently in arranging for supplies to meet the requirements of its firm customers today, as well as in the future. Mr. Sires also offered that his observations of Piedmont's gas purchasing policies indicate that Piedmont is continuing its attempts to get the best terms available in its negotiations

with suppliers and that Piedmont is meeting its obligation to maintain adequate supplies at just and reasonable costs to serve its customers.

Based on the record as a whole, the Commission concludes that the Company's gas purchasing practices and policies are prudent. Staff has stated its opinion that Piedmont is operating and acting prudently in arranging for supplies to meet the requirements of its firm customers and further opined that Piedmont is meeting its obligation to maintain adequate supplies at just and reasonable costs to serve its customers.

Further, we adopt the benchmark cost of gas of \$4.39 per dekatherm. Staff has supported the position that this benchmark cost of gas is representative of the Company's gas cost on average over the next twelve (12) months.

IT IS THEREFORE ORDERED THAT:

1. Piedmont is hereby permitted to maintain its commodity cost of gas at \$4.39 per dekatherm, as requested in Piedmont's filing. This amount is without prejudice to Piedmont's right to further revise the benchmark in accordance with provisions of its PGA, if future conditions warrant, and is without prejudice to the parties' right to request review of the benchmark in accordance with the Commission's PGA provisions.
2. The current procedures in Piedmont's PGA result in a properly stated cost of gas recorded in compliance with Commission Orders, and the Deferred Account activity was properly recorded and reported to the Commission as required.
3. The Company's gas purchasing practices and policies are hereby found to be prudent.

AUGUST 25, 2000

PAGE 6

4. All Staff adjustments to the Deferred Account balance are adopted. We also adopt Staff's proposed limitation on the interest on the deferred account to the lower of the authorized rate of return or the actual earned return.

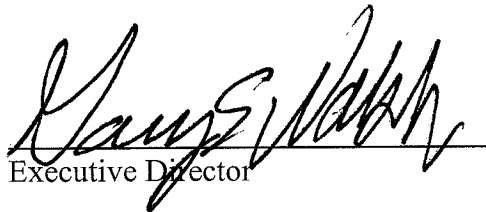
5. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Chairman

ATTEST:


Executive Director

(SEAL)